



TITLE: Environmental, Social and Governance Policy **EFFECTIVE DATE:** June 9, 2022

BOARD ADOPTION: June 9, 2022

I. PURPOSE

This Policy articulates the approach to Environmental, Social and Governance (ESG) actions taken by the Seattle City Employees' Retirement System (SCERS). The intent of this Policy is to ensure that ESG-related activities effectively advance SCERS's mission and are fully consistent with SCERS's investment beliefs and fiduciary duties. These fiduciary duties and their relevance to ESG matters are detailed in a memo from legal counsel that the Board has made publicly availableⁱ.

As an investor with a well-diversified portfolio that is broadly representative of the real economy, SCERS benefits from an Environment that is sustainable, a Society that is well-functioning and Governance systems that are sound.

The Board believes that the investment portfolio's risk-return profile may be improved by integrating broad ESG factors into the investment process and focusing on certain critical ESG factors where SCERS can have a beneficial impact. Of these factors, the Board has identified climate change and diversity, equity, and inclusion (DEI) as ESG priorities, and may identify other ESG priorities in its discretion and as resources permit.

II. ESG PROCESS INTEGRATION

SCERS integrates ESG risks and opportunities into its investment process to ensure that any financially material impact on risk and return is considered. SCERS evaluates financially-material ESG factors in a manner consistent with other investment factors.

SCERS has identified manager research as the most impactful part of the investment process for integrating ESG risks and opportunities. Staff evaluates an investment manager's awareness and management of ESG factors in their organization, strategy, and portfolio as part of a holistic assessment of the manager. The emphasis placed on ESG factors in the manager research process varies by asset class, manager, and strategy depending on its financial materiality. SCERS delegates security selection to investment managers given their better suited skills and experience.

SCERS may also integrate ESG risks and opportunities into the strategic asset allocation determination when a particular ESG factor is expected to have a profound and pervasive financial impact across the capital markets.

III. CLIMATE CHANGE POSITIVE ACTION STRATEGY

The Board believes that climate change poses a systemic risk to the investment portfolio due to its profound and pervasive impact on the real economy. Climate change also introduces heightened

ⁱPolicy Adopted: September 12, 2013

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uncertainty to the capital markets depending on how it is addressed by policymakers, companies, investors, individuals, and other stakeholders. SCERS supports decarbonizing the real economy to safeguard its investment portfolio from the impact of climate change. With that goal in mind, the Board has directed SCERS to undertake a positive action strategy related to climate change that consists of:

A. Company Voting and Engagement

Companies can play a meaningful role in decarbonizing the real economy through their investment decisions, business operations, policy advocacy, and other activities. As a public company shareholder, SCERS emphasizes climate change in electing board directors and voting on shareholder or management resolutions.

SCERS also engages with companies, investment managers, and other relevant bodies to advance decarbonization, as resources permit.

B. Policy Advocacy

Governments are critical to decarbonizing the real economy through setting constructive regulations, developing incentives for companies and individuals to reduce emissions, and investing in promising technology and essential infrastructure. SCERS advocates for broad-based government policies that advance decarbonization as part of investor coalitions and directly, as resources permit.

C. Sustainability Investments

SCERS proactively evaluates investment managers within permissible asset classes who seek investment opportunities that contribute to decarbonizing the real economy. These investments may only be undertaken if they are expected to improve or maintain the portfolio's risk-return profile as compared to other investments in the same asset class. Furthermore, SCERS only considers investments that are feasible to implement as part of its overall investment strategy.

IV. DIVERSITY, EQUITY, AND INCLUSION (DEI) POSITIVE ACTION STRATEGY

The Board believes that diversity, equity, and inclusion lead to better decision-making and contributes to improved company and investment manager performance. With this belief in mind, the Board has directed SCERS to undertake a positive action strategy related to diversity, equity, and inclusion (DEI) that consists of:

A. Company Voting and Engagement

Companies are both primary beneficiaries of a diverse workforce and gatekeepers for hiring, training, enriching, and promoting that workforce. As a public company shareholder, SCERS emphasizes DEI in electing board directors and voting on shareholder or management resolutions.

SCERS also engages with companies, investment managers, and other relevant bodies to further DEI, as resources permit.

B. Manager Research

SCERS manages its portfolio through investment managers that are selected by the Board to be responsible for investing a portion of SCERS's assets on its behalf. Given this direct relationship with the investment management industry, the Board supports improving the industry's racial and gender diversity. SCERS seeks to select investment managers from a broad and qualified universe and requires prospective investment managers to detail their workforce composition and describe their policies and practices to further DEI.

V. ESG-TARGETED DIVESTMENT OR INVESTMENT

The Board finds that the positive action strategies outlined above are the most effective, permissible means for SCERS to beneficially impact its ESG priorities. The Board will not divest from or invest in a targeted company, sector or other set of investments with the primary goal of advancing an ESG priority because doing so would be inconsistent with SCERS's: (1) *mission* to fulfill the promise made to our members by delivering the retirement benefits they have earned; (2) *fiduciary duties* of prudence and loyalty that are paramount; and, (3) *investment beliefs* that emphasize the benefits of diversification, cost control and passive management.

VI. REPORTING AND COLLABORATION

The Board seeks to stay abreast of ESG-related developments and to follow best practices to the extent that they are consistent with its mission, fiduciary duties, and investment beliefs. To this end, the Board directs that: (1) SCERS participate in membership organizations and partner with other institutional investors to share information and pursue ESG priorities of mutual concern; (2) SCERS staff provide semiannual updates on its activities and industry developments related to ESG matters; and (3) the Investment Consultant provide an annual overview of ESG matters and industry responses to the Board or Investment Committee to guide future ESG policy and activities.

VII. POLICY REVIEW

To ensure that it remains relevant and appropriate given evolving legal and statutory developments, the Board shall review this policy as new policies and regulations emerge. At a minimum, such review shall be conducted at least once every three (3) years or upon request by a majority of the SCERS Board of Administration members.

ⁱ Monaco, M. (July 13, 2017). *Legal Permissibility of Environmental, Social and Governance ("ESG") Investment Proposals*. Retrieved from http://www.seattle.gov/Documents/Departments/Retirement/Publications/performance/ESG%20Updates/ESG-Comprehensive-Follow-Up-Analysis_July-2017.pdf